NEW YORK CITY COMPTROLLER
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Raising Revenues

Options for the City of New York to secure new sources of funding for services

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Introduction

As New York City moves into the post-pandemic future, it must rise to face new challenges in order to secure a thriving and inclusive future, and remain the greatest city in the world. The City is on solid financial footing to meet current obligations, but fiscal risks and challenges remain on the horizon. New York City's economy has largely recovered from the negative impacts of the Covid-19 pandemic, but wide budget gaps loom in the outyears of the financial plan. Uncertainty regarding the impacts of the shift to hybrid and remote work on commercial real estate and property tax revenues as well as ongoing concerns about the high costs of housing pushing families out of the city remain a threat to both the City's revenues and NYC's long-term thriving. Strengthening the city's economic position and ensuring success is more widely shared will require new investments in public infrastructure and services.

The City of New York can ensure that New York City remains a place that people want to build families, start businesses, and create new ideas by investing in high quality public education from pre-K to university, universal child care, robust public transit, and affordable housing – investments that are essential to the city's future economic growth.

As federal Covid-19 stimulus funding winds down, the City of New York must look elsewhere for funding to sustain and create new programs that will keep families growing and creating in NYC. A serious, long-term savings plan to address outyear budget gaps must be a part of that plan, but if the City is going to expand services to address concerns about affordability, and make new investments in shared economic thriving to address post-pandemic conditions, new revenues will be needed.

New revenues must be both progressive and effective. New revenues should not burden New Yorkers already struggling with high costs of living, but instead be raised from the wealthiest New Yorkers who have done extremely well in the past few years. For example, income for the top 0.02% of New Yorkers grew by $62 billion over the first two years of the pandemic. At the same time, any tax changes should avoid inducing people or businesses to leave in large numbers that could offset the value of the increased revenue to the city's bottom line. The proposals here for modest changes to personal income and property tax for the wealthiest New Yorkers are guided by those principles.

All of the revenue options in this report would require statutory changes in Albany. Consideration of these options will not take place during the remaining weeks of this year's State legislative session and is not necessary for the City to adopt a balanced FY 2024 budget that preserves essential services. The proposals outlined here are intended to prompt a longer-term conversation that will be needed in the coming years to fund a more ambitious agenda that secures a thriving future for all city residents.

A more progressive NYC Personal Income Tax

New York City is one of the most unequal cities in the United States, with the highest concentration of millionaires and billionaires in the country and nearly 18% of residents living in poverty as of 2019. A small number of very wealthy New Yorkers who earn the largest share of income saw their incomes rise significantly over the last few years, while other New Yorkers struggled with rising housing costs and the impact of historic inflation on cost of living.

Between 2011 and 2021, New Yorkers with more than $1 million in Adjusted Gross Income (AGI) averaged 0.7% of all tax filers, 35.6% of the AGI, and 42.4% of NYC Personal Income Tax (PIT) liability. An even smaller group of New Yorkers making $10 million or more averaged 0.04% of the total returns in 2011-2021, 17.9% of the AGI, and 21.3% of NYC PIT.

NYC's Personal Income Tax (PIT) rate schedule starts at 3.078% and reaches the top rate of 3.876% at relatively low levels of taxable income: $50,000 for singles, $60,000 for head of household (HH), and $90,000 for married filing jointly (MFJ). This means that single filers with $1 million in taxable income pay the same NYC marginal tax rate as those with taxable income just above $50,000.

Proposal 1: Raise the PIT for top 1% of income earners

We modeled three options. The first sets the top tax rate at 4.46% (0.584 percentage points above the current top rate) on taxable incomes above $500,000 for singles, $750,000 for head of household, and $1 million for married couples filing jointly. This rate would not be unprecedented: NYC's top tax rate was 4.45% in 2003-2005 and 4.46% in 1991-1998.

The second option adds a bracket to Option 1 for filers with taxable income above $5 million, which would be taxed at the marginal rate of 5.0% (+1.124 percentage points above the current rate). The third option adds a bracket to option 2 for filers with taxable income above $25 million, which would be taxed at the marginal rate of 5.5%. The options are summarized in Table 1.

Table 1. Options for new NYC PIT top income brackets and marginal rates

Income brackets	Marginal tax rates		
	Option 1	Option 2	Option 3
Single: $500k - $5m HH: $750k - $5m MFJ: $750k - $5m	4.46%	4.46%	4.46%
All filers: $5m - $25m	4.46%	5.00%	5.00%
All filers: $25m+	4.46%	5.00%	5.50%

SOURCE: Office of the NYC Comptroller.

Revenue estimates

We estimate that the proposed brackets and rates would affect roughly 40,000 filers (the top 1%). We estimate that the City of New York could see up to $900 million in tax year 2024, factoring in the estimated impact of outmigration and other behavioral responses on taxable income, as described in detail in the appendix.[1] **Table 2 summarizes the revenue estimates.**

[1] We acknowledge the uncertainty related to the strength of behavioral responses, particularly in the aftermath of the COVID-19 pandemic.

Table 2. Revenue estimates ($m)

Tax year	Option 1	Option 2	Option 3
2024	$560	$805	$896
2025	$565	$809	$898
2026	$581	$830	$921
2027	$607	$867	$963

SOURCE: Office of the NYC Comptroller.

Table 3 summarizes average tax increases for filers that fall in the affected brackets and the percentage tax increase relative to the baseline projection of taxable income for each option.

Table 3. Average and percentage tax changes (tax year 2024)

	Option 1		Option 2		Option 3	
Average ($000s)	Average ($000s)	% of taxable income	Average ($000s)	% of taxable income	Average ($000s)	% of taxable income
Singles: $500k - $5m HH: $750k - $5m MFJ: $1m - $5m	$4.71	0.26%	$4.60	0.26%	$4.51	0.25%
$5m - $25m	$47.92	0.47%	$68.57	0.67%	$68.02	0.66%
$25m+	$377.93	0.51%	$694.19	0.94%	$877.39	1.19%
All affected	**$13.67**	**0.39%**	**$19.67**	**0.56%**	**$21.93**	**0.62%**

NOTE: average tax changes are net of behavioral effects. Percentage tax increases are based on baseline projected taxable income, after out-migration but before other behavioral changes.
SOURCE: Office of the NYC Comptroller.

More equitable taxation of real property

The NYC property tax is regressive: the higher the value of the homes and apartments, the lower the effective tax rate paid (the ratio of taxes paid to the market value of the property). The Office of the NYC Comptroller has advocated for structural reform of the property tax system and proposed a framework which incorporates the recommendations of the Advisory Commission on Property Tax Reform published at the end of 2021. Structural reform of the property tax system in NYC will provide property tax relief for overburdened homeowners while fairly taxing higher value properties. Properly implemented, structural tax reform should include protections for low-income homeowners whose properties have appreciated in value.

The following proposals represent additional revenue proposals independent of comprehensive property tax reform recommendations (with the exception of the coop-condo abatement that would be entirely replaced by a homestead exemption and a circuit breaker program under structural reform).

Proposal 2: Luxury pied-à-terre surcharge

A luxury pied-à-terre tax surcharge is a tax on homes and apartments neither occupied by their owners or family member, nor rented out to a NYC resident. The surcharge is intended to offset the lower effective tax on high-value properties embedded in the City's property tax system, and it gives an incentive to renting out the properties. A progressive surcharge rate that starts at $5 million for 1-3 family homes and $300,000 in assessed value (more than $3 million in market value) for coops and condos, first proposed by the Fiscal Policy Institute and following a legislative proposal sponsored by Senator Hoylman-Sigal, would apply to less than 15,000 properties. We estimate that the median effective surcharge rate would be 0.20% for coops and condominium apartments and 0.53% for single-family homes.

Table 4. Luxury pied-à-terre surcharge: Affected properties and median surcharge

Property Type	Affected properties	Median surcharge
Condominium apartments	11,072	$12,000
Coop apartments	1,808	$10,262
One-family homes	1,911	$30,910
Total	**14,791**	**$12,944**

Note: Based on FY 2023 data.
SOURCE: NYC Department of Finance, Office of the NYC Comptroller.

Proposal 3: Partial repeal of coop-condo abatement for luxury units

The coop-condo abatement was enacted in 1996 to lower taxes on Class 2 coop apartments and condominiums and bring them closer to taxes on Class 1 properties. Properties that are not the owner's primary residence are not eligible for the abatement. In FY 2023, the abatement delivered a total tax benefit of $656.1 million to coop and condominium owners. The abatement equals 17.5% of the tax for properties with average assessed value above $60,000. Proposal 3 would eliminate the coop-condo abatement for properties with assessed value above $300,000 (more than $3 million in market value). In Table 5, we report the number of cooperative buildings and condominium apartments affected, and their median tax increase.

Table 5. Partial coop-condo abatement repeal: Affected properties and median tax increase

Property Type	Affected properties	Median increase
Condominium apartments	4,283	$8,192
Coop buildings	237	$141,570

Note: based on FY 2023 data.
SOURCE: NYC Department of Finance, Office of the NYC Comptroller.

Proposal 4: Removal of the Madison Square Garden exemption

Madison Square Garden is fully exempt from taxation if it is continually used as a venue for professional major league hockey and basketball teams. From FY 1984 to FY 2023, the property has received a total tax break of $923.5 million (in inflation-adjusted dollars). This proposal eliminates the exemption.

Revenue estimates

Eliminating or adjusting property tax abatements and exemptions, and the addition of a pied-a-terre tax would increase the City's revenue by approximately $400 million dollars per year.

Table 6. Revenue estimates from proposed taxes on real property

Proposal	Revenues by Fiscal Year ($m)		
	FY 2025	FY 2026	FY 2027
Luxury pied-à-terre surcharge	$277	$257	$239
Partial repeal of coop-condo abatement	$98	$104	$111
Repeal of MSG exemption	$44	$45	$46
Total	**$419**	**$407**	**$396**

SOURCE: Office of the NYC Comptroller.

Conclusion

As the City of New York looks ahead to the next four years of the financial plan, raising new revenues should go hand-in-hand with efficiency initiatives and a long-term savings plan to ensure we can continue to provide high quality services to New Yorkers. These proposals represent modest changes to taxation for the wealthiest New Yorkers that, taken together, could provide more than $1 billion dollars a year in additional revenue to invest in programs that help all New Yorkers thrive.

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Appendix

Personal Income Tax

Income in NYC is concentrated at the top of the distribution. Table A1 shows that the number of tax returns with Adjusted Gross Income (AGI) of at least $1 million fluctuates from year-to-year, but is on an increasing trend, reaching a peak of 33,500 in tax year 2021.[2] Between 2011 and 2021, these returns averaged 0.7% of all filers, 35.6% of total income, and 42.4% of NYC Personal Income Tax (PIT) liability. As income increases, its sources shift from wage earnings toward business income, capital gains, dividends, and interest. These income sources are more volatile and often taxpayers can control the timing of when they become taxable, as is discussed further below. For example, the data show that income spiked in 2012 in anticipation of the higher federal tax rates starting in the following year, and again in 2017 in response to the cap on the State and Local Tax (SALT) deduction starting in 2018.

Table A1. NYC filers with AGI of $1m+ and their PIT liability

Tax year	Filers	% of NYC Filers	AGI ($b)	% of NYC AGI	PIT ($b)	% of NYC PIT
2011	19,675	0.6%	$79.1	31.7%	$2.9	39.9%
2012	22,135	0.6%	$102.9	36.8%	$3.8	45.5%
2013	21,764	0.6%	$95.6	33.9%	$3.5	42.2%
2014	25,085	0.7%	$116.9	37.2%	$4.3	45.5%
2015	25,934	0.7%	$117.2	36.1%	$4.3	44.1%
2016	25,230	0.7%	$100.5	32.1%	$3.7	39.3%
2017	28,321	0.7%	$140.0	38.5%	$5.1	44.5%
2018	30,012	0.8%	$125.5	34.2%	$4.6	40.1%
2019	30,460	0.8%	$126.1	33.1%	$4.7	37.8%
2020	27,598	0.7%	$139.9	35.8%	$5.2	40.5%
2021*	33,502	0.9%	$186.4	41.9%	$7.0	46.6%

NOTE: Table includes NYS AGI from non-dependent returns with 12-months of NYC residency for the primary taxpayer on the return. PIT liability not adjusted for elimination of STAR rate cut for filers with income above $500,000 starting in tax year 2015.

* Data based on the 2021 preliminary file from NYS Department of Taxation and Finance.
SOURCE: NYC IBO, NYS Department of Taxation and Finance, Office of the NYC Comptroller.

[2] A more detailed look at the 2019-2021 tax returns is available here.

Similar trends are evident in the even smaller group of filers with AGI of $10 million or more. These filers averaged 0.04% of the total number of returns filed in 2011-2021, 17.9% of total income, and 21.3% of NYC PIT liability. The data are shown in Table A2 below.

Table A2. NYC filers with AGI of $10m+ and their PIT liability

Year	Filers	% of NYC Filers	AGI ($b)	% of NYC AGI	PIT ($b)	% of NYC PIT
2011	1,160	0.03%	$35.2	14.1%	$1.3	17.8%
2012	1,493	0.04%	$52.7	18.8%	$1.9	23.5%
2013	1,315	0.04%	$46.4	16.4%	$1.7	20.6%
2014	1,700	0.05%	$59.9	19.1%	$2.2	23.4%
2015	1,679	0.04%	$58.3	18.0%	$2.1	21.9%
2016	1,412	0.04%	$43.5	13.9%	$1.6	17.0%
2017	1,818	0.05%	$75.7	20.8%	$2.8	24.0%
2018	1,786	0.05%	$57.7	15.7%	$2.1	18.5%
2019	1,766	0.04%	$57.2	15.0%	$2.1	17.2%
2020	1,898	0.05%	$77.4	19.8%	$2.9	22.4%
2021*	2,499	0.06%	$111.3	25.0%	$4.2	27.8%

NOTE: Table includes NYS AGI from non-dependent returns with 12-months of NYC residency for the primary taxpayer on the return. PIT liability not adjusted for elimination of STAR rate cut for filers with income above $500,000 starting in tax year 2015.

* Data based on the 2021 preliminary file from NYS Department of Taxation and Finance.

SOURCE: NYC IBO, NYS Department of Taxation and Finance, Office of the NYC Comptroller.

Outmigration from NYC increased significantly during the pandemic and its composition shifted toward higher income households. The IRS recently released county-to-county migration data for 2020-2021, which contain total incoming and outgoing federal Adjusted Gross Income (AGI). The 2020-2021 data are counts of filers that have been linked longitudinally in tax returns for 2019 income and 2020 income. Filers are allocated to an origin county (where 2019 taxes were filed) and a destination county (where 2020 taxes were filed). The data also report 2020 AGI by origin-destination pair.[3] It should be noted that changing the address from where tax returns are filed does not necessarily imply the absence of taxable income in the origin county, nor does it necessarily imply that the filer changed domicile.

[3] Methodological notes are available here.

Table A3 reports IRS data from 2011-2012 to 2020-2021. Before 2020, the highest net outflow was reported for 2017 (-77,050 returns), before the cap on State and Local Tax deductions (discussed briefly below) came into effect. Net outflows increased substantially during the COVID-19 pandemic (at the time 2019 and 2020 tax returns were filed), with the AGI difference between incoming and outgoing returns increasing to 5.4 percent and 6.5 percent of total AGI. Average outgoing AGI jumped in 2020 and 2021, consistent with the geographical distribution of USPS change of address requests and the concentration of remote work among high earners.

Table A3. IRS Estimates of net domestic migration

Year	Net balance	AGI difference			Average AGI ($000s)	
	Filers	Individuals	$b	% of total AGI	Incoming	Outgoing
2012	-21,131	-65,427	($2.70)	-1.00%	$67.50	$76.50
2013	-29,276	-83,243	($4.20)	-1.50%	$80.70	$93.50
2014	-31,099	-85,659	($4.00)	-1.30%	$77.50	$89.10
2015	-18,890	-61,841	($3.70)	-1.20%	$73.50	$94.00
2016	-43,091	-113,449	($5.10)	-1.50%	$93.30	$100.50
2017	-77,050	-182,469	($8.50)	-2.40%	$88.80	$96.80
2018	-53,418	-131,180	($7.10)	-2.10%	$92.90	$105.70
2019	-47,831	-121,567	($6.70)	-1.80%	$91.30	$105.70
2020	-114,282	-229,982	($21.30)	-5.40%	$86.90	$138.90
2021	-124,952	-238,115	($24.40)	-6.50%	$99.10	$151.60

NOTE: AGI difference is based on federal tax returns filed at the new address (e.g., in the 2021 row, this is 2020 AGI). Total AGI is the AGI from federal returns filed in NYC the previous year (e.g., in the 2021 row, this equals the 2020 AGI difference divided by total 2019 AGI). Average AGI is AGI divided by the number of incoming returns (e.g., tax year 2020 returns filed in NYC in 2021 by those who filed 2019 returns elsewhere in the US) or outgoing returns (e.g., 2021 returns filed outside of NYC by those who filed 2019 returns in NYC). The count of individuals is derived from the number of dependents in the tax return.

Source: IRS migration and county data, Office of the NYC Comptroller.

More recent State-level tax data from the NYS Department of Taxation and Finance, also indicates a significant increase in the rate of outmigration among high-income households in tax years 2020 and 2021. Among those with AGI of $25 million or above, the relocation rate was above 8 percent in 2021, up from around 2.5 percent before the COVID-19 pandemic in 2019. Despite the stronger migration flows, NYC AGI increased significantly among filers with AGI of $25 million and above in both tax years 2020 and 2021.

In addition to the effects of COVID-19 and remote work, certain recent major tax changes may have also influenced NYC residence decisions. In particular:[4]

1. **SALT deduction cap**: the State and Local Tax (SALT) deduction from federal taxes was temporarily capped at $10,000 (tax years 2018 through 2025) by the Tax Cuts and Jobs Act (TCJA) passed in late 2017. TCJA provisions regarding the federal individual income tax lowered the taxes for most filers due to a combination of higher standard deductions, lower rates, and lower Alternative Minimum Tax (AMT). However, high-income taxpayers with relatively higher state and local tax burdens are more likely to face higher taxes because they itemize deductions and were not already subject to AMT before TCJA. For these taxpayers, lower federal rates do not outweigh the increased liability deriving from the SALT deduction cap.[5] Regardless of the change in federal effective rates, the cap widens the tax differential between governments with high and low state and local taxes.
2. **Pass-Through Entity Tax (PTET, both NYS and NYC taxes)**: shortly after the passage of TCJA, NYS Department of Taxation and Finance outlined workarounds to the SALT deduction cap, among them a tax on pass-through income levied at the entity level. State legislation instituted a NYS Pass-Through Entity Tax (PTET) in 2021 (for liability in 2021 and beyond) and a NYC PTET in 2022 (for liability in 2022 and beyond). Essentially, PTET nullifies the effects of the SALT deduction cap for income earned through pass-through businesses that opt into the tax. A brief summary of PTET is available in the Comptroller's 2022 Annual State of the City's Economy and Finances.
3. **NYS temporary top tax rates increase** (NYS FY 2021-2022 Enacted Budget): for tax years 2021 to 2027, the top NYS income tax rate increased from 8.82 percent to:
    a. 9.65 percent for taxable income over $1,077,550 for single filers, $1,616,450 for head of household filers, or $2,155,350 for joint filers.
    b. 10.3 percent if New York taxable income is over $5,000,000.
    c. 10.9 percent if New York taxable income is over $25,000,000.

Table A4 reports the tax year 2022 City and State rate schedules and the rate increase options. As a result of the temporary NYS rate increase, the combined state and local top tax rate for NYC residents was 14.776%. The next highest state income tax rates were in California (13.3%), Hawaii (11.0%), Washington D.C. (10.75%), and New Jersey (10.75%).[6]

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[4] The recently enacted NYS budget for 2023-2024 increased the Metropolitan Commuter Transportation Mobility Tax (MCTMT) for employers and self-employed in NYC: the NYS 2023-2024 Enacted Budget included the increase of the top tax rate from 0.34% to 0.60%. The increases takes effect on July 1, 2023 for employers and starting in tax year 2023 for the self-employed (rising to 0.47% in tax year 2023 and to 0.60% in tax year 2024). Changes to MCTMT affect a broader tax base, including non-NYC residents.

[5] TCJA contains cuts to business taxes (both corporations and pass-through entities) and to the estate tax that benefit high-income filers and were estimated to, collectively, increase their after-tax income. Nevertheless, areas with high concentration of SALT deductions were disadvantaged relative to the rest of the nation and the majority of high-income City residents could face an increase in their federal effective tax rate.

[6] See Federation of Tax Administrators individual income state tax rates as of January 1, 2023. NYS has "tax benefit recapture" provisions by which high-income taxpayers' top rate is applied to their entire income. The City applied a tax benefit recapture provision to the temporary rate increase in effect in tax years 2003-2005.

Table A4. Combined NYC and NYS income tax schedules and proposed options.

Income above			Rates			Rate increases	
Singles	HH	MFJ	NYS	NYC	Combined	Options	New Combined
$0	$0	$0	4.00%	3.078%	7.078%	0%	7.078%
$8,500	$12,800	$17,150	4.50%	3.078%	7.578%	0%	7.578%
-	$14,400	$21,600	4.50%	3.762%	8.262%	0%	8.262%
$11,700 / $12,000	$17,650	$23,600	5.25%	3.762%	9.012%	0%	9.012%
$13,900	$20,900	$27,900	5.85%	3.762%	9.612%	0%	9.612%
$25,000	$30,000	$45,000	5.85%	3.819%	9.669%	0%	9.669%
$50,000	$60,000	$90,000	5.85%	3.876%	9.726%	0%	9.726%
$80,650	$107,650	$161,550	6.25%	3.876%	10.126%	0%	10.126%
$215,400	$269,300	$323,200	6.85%	3.876%	10.726%	0%	10.726%
$500,000	$750,000	$1,000,000	6.85%	3.876%	10.726%	0.584%	11.310%
$1,077,550	$1,616,450	$2,155,350	9.65%	3.876%	13.526%	0.584%	14.110%
$5,000,000	$5,000,000	$5,000,000	10.3%	3.876%	14.176%	0.584%-1.124%	14.110%-15.300%
$25,000,000	$25,000,000	$25,000,000	10.9%	3.876%	14.776%	0.584%-1.624%	15.360%-16.400%

NOTE: for single taxpayers, the NYS rate is 5.25% above $11,700 and the NYC rate is 3.762% above $12,000.
Source: NYS Department of Taxation and Finance Instructions for Form IT-201 for tax year 2022, Office of the NYC Comptroller.

Tax differentials have been shown to affect outmigration of high-income households, although the impact tends to be small and driven by flows to Florida.[7] Initial estimates on the effect of

[7] Young C., Varner C., Lurie I.Z., Prisinzano R. (2016) "Millionaire Migration and the Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review*, 81(3), https://www.asanet.org/wp-content/uploads/attach/journals/jun16asrfeature.pdf. Initial estimates on the effect of TCJA on migration also point to relatively small effects. Young C., Lurie I. (2022) "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight," *Washington Center for Equitable Growth*, https://equitablegrowth.org/wp-content/uploads/2022/07/072822-WP-Taxing-the-Rich-How-Incentives-and-Embeddedness-Shape-Millionaire-Tax-Flight-Young-and-Lurie.pdf

TCJA on migration also point to relatively small effects.[8] Available studies on specific State tax changes also tend to show a relatively small impact on migration:

- New Jersey's 2004 "millionaires tax": Young and Varner (2011) point to a less than 0.1 percent drop in the number of high-income households for each 1 percentage point increase of tax rates.[9] Lai *et al.* (2011) estimate that outmigration would offset 1.2 percent of the additional revenues from a 1 percentage point increase in tax rates.[10]
- California's 2012 Proposition 30: Varner *et al.* (2018) estimate a decrease of 0.09 percent in the population of millionaires for each 1 percentage point increase in the effective top tax rate.[11] Rauh and Shyu (2023) estimate a reduction of 0.27 percent of high-income households for a comparable increase in the top tax rate.[12] The impact on migration appears to be temporary. The revenue estimates for the PIT options incorporate the Rauh and Shyu (2023) parameters.

Households, particularly high-income ones, also react to tax changes by shifting income over time (for instance, deferred compensation[13] or capital gains realizations[14]) or over tax bases (e.g., wages vs. business income), or by avoiding tax through a variety of legal tax shelters (e.g., offshoring income). These responses lower taxable income without affecting migration, and their strength depends on the specifics of the tax changes, the length of period analyzed, and the affected population.

To model this behavioral response, we use parameters on the elasticity of taxable income (ETI): the percentage change in reported taxable income given a percentage change in the net-of-tax

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[8] Young C., Lurie I. (2022) "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight," *Washington Center for Equitable Growth*, https://equitablegrowth.org/wp-content/uploads/2022/07/072822-WP-Taxing-the-Rich-How-Incentives-and-Embeddedness-Shape-Millionaire-Tax-Flight-Young-and-Lurie.pdf

[9] Young C., Varner C. (2011) "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," *National Tax Journal*, 64(2.1), June. http://cristobalyoung.com/development/wp-content/uploads/2018/11/NTJ-millionaire-migration-state-taxation.pdf.

[10] Lai A., Cohen R., and Steindel C. (2011) "The Effects of Marginal Tax Rates on Interstate Migration in the U.S.", NJ Department of the Treasury, https://www.state.nj.us/treasury/news/2011/OCE-Migration%20Study.pdf and https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=f317964e2bd96fdeaa1abeb7260381947d928c55. The authors state that "Based on internal NJ Treasury projections, we estimate that a one percentage point increase would raise roughly $2.5 billion in additional tax revenue. However, this figure would be partially offset and eroded over time by out- and in-migration effects. Our model suggests that New Jersey would see increased annual net outflows of about 4,200 taxpayers and $530 million of AGI. Income losses would translate to roughly $29 million in lost income tax revenue for the state." The ratio of $29 million to $2.5 billion is 1.16%.

[11] Varner C., Young C., and Prohofsky A. (2018) "Millionaire Migration in California: Administrative Data for Three Waves of Tax Reform," Stanford University Center on Poverty and Inequality, https://inequality.stanford.edu/publications/media/details/millionaire-migration-california-impact-top-tax-rates.

[12] Rauh J., Shyu R. (2023) "Behavioral Responses to State Income Taxation of High Earners: Evidence from California," *American Economic Journal: Economic Policy*, forthcoming, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3461513

[13] Gorry A., Hubbard G., Aparna M. (2021) "The Elasticity of Taxable Income in the Presence of Intertemporal Income Shifting," National Tax Journal, 74(1).

[14] Auerbach A.J., and Siegel J.M. (2000) "Capital-Gains Realizations of the Rich and Sophisticated," *American Economic Review*, 90 (2); Dowd T., McClelland R., Muthitacharoen A. (2012) "New Evidence on the Elasticity of Capital Gains," Joint Committee on Taxation and Congressional Budget Office Joint Working Paper, JCX-56-12/CBO WP 2012-09, https://www.jct.gov/getattachment/c0efd05d-a7a4-47b6-91cf-a9981301d97d/x-56-12-4472.pdf. Retroactive tax increases would limit the short-term shifting of capital gain realizations.

rate (one minus the sum of federal, state, and local rates). Saez E., Slemrod J., Giertz S.H. (2012) "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," *Journal of Economic Literature*, 50(1), https://www.aeaweb.org/articles?id=10.1257/jel.50.1.3 suggest and ETI range of 0.5-0.7 for the top 1% of federal returns. Gruber J., Saez E. (2002) "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics*, 84, show that ETI is roughly 56% higher for state than for federal taxes, though the difference is not statistically significant. Nonetheless, we apply it to the Saez *et al.* estimates to obtain an ETI of 1.1. This is a high parameter that drives a potential behavioral response that dominates the estimated impact from outmigration.

Despite these downward adjustments, we acknowledge the uncertainty related to behavioral responses, particularly in the aftermath of the COVID-19 pandemic.

A recent study by Rauh and Shyu (2023) reports a very sharp behavioral response of taxable income (ETI 2.6-3.0) to California's 2012 tax increase, with income reductions in non-investment income. To our knowledge, this is the highest parameter available from the literature. The initial evidence from 2021 NYC income tax data shows increases in wage, business, and capital gains income among the top filers, which appear at odds with strong immediate behavioral responses to the NYS rate increases.

In these estimates, we don't model the effects of SALT deductibility of PTET payments. We also don't model the expiration of the SALT deduction cap starting in tax year 2026, which would increase the net-of-tax rate and therefore offset some of the behavioral changes discussed above. Should the SALT deduction cap expire or be raised, some income will also be shifted to 2026 and beyond.

The revenue estimates represent combined PIT and PTET revenues and assume that the tax rate for PTET is changed to conform to the PIT rate schedule.

Taxation of real property

A **luxury pied-à-terre tax surcharge** is a tax on homes and apartments neither occupied by their owners or family member, nor rented out to a NYC resident. The surcharge is intended to offset the lower tax on high-value properties embedded in the City's property tax system, and it gives an incentive to renting out the properties. We model tax revenues after a legislative proposal sponsored by Senator Hoylman-Sigal. The surcharge would be levied on 1-3 family homes, coop, and condo properties that are not the primary residence of their owner and are not rented to a NYC primary resident or occupied by the owner's family. The surcharge has a progressive marginal structure starting at $5 million for 1-3 family homes and $300,000 in assessed value (more than $3 million in market value) for coops and condos. The rates go from 0.5% to 4% for 1-3 family homes and from 10% - 13% for coops and condos.

The proposed surcharge is different from the "absentee landlord" surcharge on Class 1 properties (section 307-A of the Real Property Tax Law and section 11-238 of the NYC Administrative Code), which would apply to rent-generating Class 1 properties that are not the owners' primary residences. This surcharge was meant to recapture the tax rate benefit among Class 1 properties relative to large rental buildings. State law authorized a surcharge up to 50% of a parcel's tax bill. The rate was set at zero since enactment of the tax.[15]

The reason for the disparity in tax rates and values is tied to the statutory limits to valuations. The Department of Finance cannot assess coops and condo apartments based on comparable sales like it does for 1-3 family homes. Instead, the law requires to base assessments on "comparable rental" buildings, which leads to an underestimation bias that becomes more severe the higher the value of the property. The revenue estimates assume that some of the properties become occupied over time, therefore reducing the tax base.

In the projection, we assume that assessed values grow at the median FY 2014-FY 2023 rate. The share of occupied homes and apartments was derived from Census Bureau's Housing and Vacancy Survey 2017 data, reducing revenues by 36% for condos, 13% for coops, and 32% for one-family homes. The surcharge could lower the value of affected properties, if they are not sold to primary residents. The decline would be picked up by DOF's assessments of 1-3 family homes, but it is unlikely to lead to large property tax offsets because high-value properties in Class 1 are the main beneficiaries of caps on assessed value growth, which push the assessment ratio well below the 6% target. The capitalization of the surcharge into property values would not affect the valuation of coops and condos because they are based on comparable rental buildings. In the estimates, we exclude 2-3 family homes from the tax base because they would be the most likely to be occupied. We assume a further 15% revenue reduction due to capitalization effects and a higher share of occupied units than is observable in the Housing and Vacancy Survey. We do not exempt from taxation coops and condos that, based on certified appraisals, have market value less than $5 million. We assume the number of vacant properties declines by 10.6% annually based on the trend in the number of vacant properties 2017-2021 after the imposition of Vancouver's Empty Home Tax data. Annual reports on Vancouver's Empty Home Tax are available here and here.

Partial repeal of the coop-condo tax abatement. The coop-condo abatement was enacted in 1996 to lower taxes on Class 2 coop apartments and condominiums and bring them closer to taxes on Class 1 properties. Properties that are not the owner's primary residence are not eligible

[15] The promulgated rules contain the administrative and implementation details. The proposal also differs from a transaction tax because it is levied on a permanent basis, as long as the property remains empty. The 2018-2019 NYS budget enacted a supplemental mansion tax in NYC, with revenues accruing to the MTA. The tax is a transfer tax additional to the pre-existing NYS mansion tax which equals 1% of the sale price, as long as the price is of $1 million and above. The supplemental mansion tax has the following rate schedule and it is applied to the entire sale price:

- 0.25% if the sale price is between $2 and $3 million.
- 0.50% if the sale price is between $3 and $5 million.
- 1.25% if the sale price is between $5 and $10 million.
- 2.25% if the sale price is between $10 and $15 million.
- 2.50% if the sale price is between $10 and $20 million.
- 2.75% if the sale price is between $20 and $25 million.
- 2.90% if the sale price is $25 million or more.

for the abatement.[16] In FY 2023, the abatement delivered a total tax benefit of $656.1 million to coop and condominium owners. The abatement equals 17.5% of the tax for properties with average assessed value above $60,000. In the projection, the assessed values of the targeted parcels grow at the median FY 2014 – FY 2023 growth rate.

The data on **the Madison Square Garden exemption** is from the DOF property tax files. We use median historical growth rates to project revenues.

[16] The abatement is 28.1% of taxes if the assessed value is $50,000 or less, 25.2% if the assessed value is between $50,000 and $55,000, 22.5% if the assessed value is between $55,000 and $60,000, and 17.5% above $60,000. See NYC Department of Finance's Annual Report on Tax Expenditures. Parcels in 30+ units buildings with average assessed value above $60,000 or in building with less than 30 units and average assessed value of more than $100,000 also need to file a prevailing wage affidavits as a condition of eligibility.